

**Testimony of Conor O. Walsh  
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**U.S. House of Representatives  
Committee on International Relations**

**“Millennium Challenge Account: Does the Program Match the Vision?”**

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Thank you, Chairman Hyde, and members of the House International Relations Committee, for organizing this hearing on the Millennium Challenge Corporation (MCC) and for inviting me to testify. I am honored to have this opportunity.

My name is Conor Walsh. I am the Honduras Country Representative for Catholic Relief Services, based in Tegucigalpa. Catholic Relief Services is the overseas relief and development agency of the US Catholic Church, and has been implementing projects in Honduras since 1959. Today it is one of the most active international non-governmental organizations (NGOs) operating there, in partnership with the Honduran Catholic Church and local groups. CRS/Honduras serves an estimated 300,000 people through programs in health, education, agriculture and the environment, emergency management, and strengthening civil society.

Having worked for CRS in Africa and Latin America for the past ten years, three and a half of which I spent in Honduras, I have come to appreciate the need for a new approach to US foreign assistance programs, given entrenched conditions of poverty and social injustice. My comments today will focus on two concerns that I have been able to observe as the MCC compact proposal from Honduras takes shape:

- 1) How much has civil society participated in the MCC compact proposal process?
- 2) Will the proposed MCC activities result in economic growth that yields tangible benefits for the poor?

Although Honduras has made progress in the past decades in consolidating a democratic form of government, it continues to fall short in meeting the basic needs of its population. Some of the constraints to achieving greater socioeconomic development are related to economic structures that favor traditional elites, be they agricultural landowners or owners of businesses. In addition, the country has grown dependent on large inflows of foreign assistance and on remittances sent by Honduran émigrés working

primarily in the United States. Honduras also has to deal with corruption, a problem on which successive governments have a mixed record.

To illustrate the problem of poverty in human terms, consider the following figures:

- over 50% of the population falls below the poverty threshold, but in rural areas this percentage increases to 70%
- Honduras has the highest HIV/AIDS infection rate of Central America (1.8%)
- Inequality is the most striking feature of Honduran poverty: The richest 20% of the population earns 59% of the national income, while the poorest 20% survive on less than 3%.

Geographically, poverty is concentrated in the western departments bordering El Salvador, where the standard poverty measures such as the UNDP's Human Development Index are some 30% lower than the national averages. In terms of gender and women's participation in the political process, these areas also score significantly lower than the national average.<sup>1</sup>

In light of this situation, CRS was pleased to learn of the Administration's proposal to set up the Millennium Challenge Corporation, an initiative to tackle global poverty reduction through new and innovative means, and of Honduras' eligibility to present a compact proposal to the MCA. CRS shares the MCC's conviction that eligible governments should demonstrate their commitment to investing in people, promoting good governance, and economic freedoms. They must reinforce this commitment by ensuring broad participation of all citizens in decision-making on policy, implementing programs, and monitoring progress.

The cornerstone underlying the MCA's development approach – investing in activities that stimulate economic growth as a means of combating poverty – is also sound, as long as such growth reaches the poorest segments of society. Our experience as faith-based development workers shows us that economic growth can have a powerful impact on poverty, but only if growth impacts the underlying inequities and imbalances. The laudable MCA principle of ensuring country ownership distinguishes the program from many other development assistance programs. Country ownership assumes that the citizenry has been effectively engaged in the entire process of designing, negotiating, implementing, and monitoring programs. To be sustainable, “country ownership” should mean more than “government ownership.” It should also mean that the compact stems from an extensive consultation with civil society.

To its credit, the government of Honduras, together with the MCC, has solicited feedback and comments from various social sectors on the draft compact proposal. I have attended meetings with the MCA design team or working group in Honduras, and a range of social sectors, including local business councils,

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<sup>1</sup> UNDP Human Development Report 2003

government officials, and local and international NGOs. Information on the proposal has been posted on the web and a portal was opened to receive comments on-line. The original proposal has been scaled down and its focus has tightened, partly in response to comments from Hondurans, and partly in response to those from the MCC.

Despite these commendable efforts, in Honduras our local partners, including the local Church, have expressed doubts about the extent of citizen ownership. Local citizens groups do not necessarily share the priorities set forth in the compact proposal; they do not feel that they were consulted sufficiently; and they have expressed reservations about the compact proposal in general. They also detect a bias in the way the MCC working group selected its audience, with a heavy predominance of private businesses, government, and government-aligned groups such as COHEP and FONAC.<sup>2</sup>

Hondurans understand the complexities of convening meetings of diverse groups representing the various social sectors, and they know from their own experience that it takes time and money. But they also believe that the MCA design team could have ensured better feedback. Web-based communications and tight feedback deadlines are inappropriate for most parts of rural Honduras. As a result, many valid opinions were effectively ignored. In the Honduran countryside, I can assure you that 9 people out of 10 have never heard of the MCC or its stated goals.

The Honduran government has asserted that its MCC proposal is based on the consultations underlying the Poverty Reduction Strategy Paper (PRSP), but this process (which was instituted in 2000 as part of the HIPC debt reduction initiative) fell short of its promise. While the PRSP process was a watershed event in Honduras in that it for the first time engaged the country as a whole in a comprehensive analysis of poverty and its root causes, many Hondurans were left disillusioned by the process. The final product, in their opinion, did not adequately reflect their feedback. Meetings to discuss the content of the PRSP were called on short notice and did not offer opportunities for effective dialogue, but rather consisted of presentations followed by Q&A sessions. Lately, there have been some encouraging signs that the consultative process governing the PRSP is gaining momentum: civil society representation on the PRSP Consultative Council (the body overseeing the implementation of the PRSP) has been expanded, giving civil society a majority representation. An agreement was also reached to at least partially fund the so-called “regional PRSPs” that – in contrast to the central government’s PRSP – were devised with extensive citizen participation by the local Church, farmers associations, women's organizations, NGO umbrella groups, and other social sectors. These positive developments on the PRSP can serve as a guide for the MCC and partner governments as it seeks to include civil society more effectively in its planning

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<sup>2</sup> COHEP is the private business council, and many of its members are on the Tegucigalpa Chamber of Commerce. FONAC is a government-funded organization that serves as a proxy for civil society consultations, but few consider it an independent, representative organization.

and governing structures. In a word, I applaud the Honduran MCC's design team and working group for including at least some civil society representatives on the proposed governing council for the compact, but urge the designers to expand and strengthen the voice of local actors, institutionalizing their role in decision-making.

It is critical to understand why CRS emphasizes so strongly the importance of meaningful local participation in the MCC. In our 60 years of development experience, the central lesson we have learned is that development programs are only effective if they are locally designed and implemented by the intended beneficiaries. Citizen groups and local communities have a vital role to play in assessing problems, prioritizing investments, and identifying practical approaches to carrying out projects. When it is informed and armed with sufficient resources (technical or financial) to organize, civil society is more likely to hold governments accountable than donors. Independent social audit mechanisms and citizen oversight committees are two mechanisms that have proven effective for CRS in the Latin American and African contexts.

I will now address some specific issues related to the content of the Honduras compact proposal that in my view merit a closer examination.

First, the latest version of the compact (which has not been made available to the public as such; a summary presentation on the changes to the original is available on the website) consists of two major investments: roads infrastructure and agricultural development. On the first of these, my question is: Who will be the primary beneficiaries of such road improvements?

Although the compact does envision the construction and improvement of feeder roads that connect farms to markets, it is as yet unclear where these secondary and tertiary roads will be built. Unless the roads reach into those parts of the country where the largest concentrations of poor farmers are to be found, the impact of road improvements on reducing poverty is questionable, at least in the short term.

The danger is that these investments will end up benefiting those farmers, transporters and businesses that are already comparatively better off, such as those living near or using the main north-south highway. I can also attest to the need for better roads *and better* road safety, having traveled earlier this week on the portion of the main highway that is to be improved with MCA funds. Under the best conditions, the trip is harrowing and time-consuming. The construction of an additional lane may indeed increase travel speeds and therefore reduce transportation costs. However, faster traffic also means greater risks in terms of safety, and the already appallingly high accident and death rate on the main north-south highway, is likely to *increase* unless road improvements are accompanied by concerted road safety campaigns consisting of education, training, and enforcement of speed limits.

Second, the provision of technical assistance (TA) to farmers also needs attention. I agree that Honduran farmers need training in better agricultural practices, crop diversification, efficient production and processing, and marketing to enable them not only to subsist but also compete in an increasingly global economy. My concern has to do with the mechanism the compact proposal envisions for delivering such TA, which appears to rely heavily on consultants and private TA firms that will be contracted to impart technical services to interested farmer groups.

In my experience, targeted technical assistance has the best chance of being applied, replicated and sustained when farmers are involved as active participants, not mere recipients of technical know-how. The starting point for any rural development strategy should be community organization and institutional capacity-building, so that the activities being promoted can rest on a solid and lasting social structure. In addition, training activities need follow up to monitor whether the technical assistance is being applied, and if not, to find out why not. The MCA should ensure that credible organizations with proven track records are selected to accompany rural communities before, during and after the delivery of TA, and that sufficient funds are made available to provide this kind of follow-up.

Furthermore, the compact should lay out a far clearer strategy for addressing the needs of women, especially as it pertains to TA. In the Honduran context, where women play a key role in agricultural transformation and processing, TA should be geared towards those activities on which women spend the most time, such as canning, pressing juice, and packaging.

Third, better and more affordable credit to the small rural farmer is also a key component of a successful rural development strategy, but the MCC proposal fails to state which farmers, i.e. which economic or geographical group, will be targeted. If credit is to be extended primarily to those farmers who more competitively positioned to take advantage of the existing market linkages, the poorer, more remote farmers will be at a competitive disadvantage and inequalities will increase further. Achieving balanced growth will require a fair and effective microcredit program.

I understand my fellow CRS country representatives and partners in MCA eligible countries, such as Madagascar and Nicaragua, have raised some of the same issues and concerns about participation and the impact of growth on the poorest.

Now that I have illustrated the specific case of Honduras, let me end on behalf of Catholic Relief Services by respectfully submitting the following recommendations for consideration by the House:

- 1) Refer to section 609(d): “In entering into a compact, the United States shall seek to ensure that the government of an eligible country – (1) takes into account the local-level perspectives of the rural and urban poor, including women, in the eligible country,” when considering reauthorization for

MCA funding in FY 06. Enabling the participation of the poor is the best safeguard to ensure achievement of the MCC's overall objective of poverty reduction.

- 2) Design programs through consideration of the full range (beyond PRSP) of existing citizens' initiatives related to poverty reduction, such as the "Regional PRSPs" in Honduras; monitor and evaluate programs by employing participatory processes such as social audit mechanisms to ensure that the poorest and most vulnerable groups such as women are being reached.
- 3) Take additional steps to identify explicit coordination and communication mechanisms between MCC and key actors in development aid. As the GAO report indicates, the MCC has already taken initial steps in this direction.
- 4) Ensure that funding for the MCA is additional to existing development accounts, because poor countries need social as well as economic investments to effectively fight poverty.

In conclusion, I want to thank the Committee for your support of innovative initiatives such as the MCC that both help to stimulate economic growth and combat global poverty. I also commend the Chairman and Ranking Member for your stalwart support of non-governmental organizations such as Catholic Relief Services in Honduras. I welcome the opportunity to respond to any questions you may have.